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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: June 19, 1967

SUBJECT: Initial Call of Ambassador Ortona

PARTICIPANTS: H.E. Egidio Ortona, Ambassador of Italy
Anthony M. Solomon, Assistant Secretary of State for Economic Affairs
Wells Stabler, Country Director, Italy-Austria-Switzerland

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Ambassador Ortona paid a courtesy call on Mr. Solomon today. During the course of the conversation, the following topics were covered.

1. Civil Air Negotiations

Ambassador Ortona said that the Foreign Office, and he in particular, had tried on several occasions to moderate the positions of the technicians in the aviation talks. He had attempted with great difficulty to reconcile differences prior to May 31. In part, this had been for selfish reasons since he realized that, if an agreement was not reached, he would inherit the problem as Ambassador. The views between the two countries had been so divergent that he had finally concluded that it was better to have the agreement lapse and to go into the present de facto arrangement. He had no instructions regarding the resumption of negotiations and it was felt in Rome that it would be desirable to do nothing for the time being to let the situation calm down. During the period prior to resumption of negotiations, it would be possible to see how the differences could be narrowed. The Ambassador emphasized that the Italian Government wished to refrain from public statements on the subject and, in fact, press references had only appeared once or twice since the suspension of the negotiations. The Italian Government did not desire to give a political connotation to the negotiations.

Mr. Solomon said he thought this decision of the Italian Government had been wise, particularly since he could say that there were a certain number of "raw nerves" here. He thought that from both points of view, it would be better to have a waiting period before negotiations resumed.

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Ambassador Ortona mentioned a recent story in The Philadelphia Inquirer which referred to the "fabulous" nature of our round-the-world offer. He felt that this type of characterization caused trouble in Italy.

Mr. Solomon replied that we had been concerned by some of the language which had been used by the Italian Delegation to characterize our offer. Ambassador Capomazza had referred to our round-the-world offer as "insulting" and he had frankly been surprised by this language. It almost appeared that Ambassador Capomazza was determined to outdo General Santini in order that Santini could not criticize the conduct of the negotiations. We had always understood that the round-the-world route was what the Italians had desired. It was with great pain, difficulty, and against the strong opposition of our airlines that we had finally been able to offer the Los Angeles-Tokyo route. We felt that this route would be most important to Italy both in terms of commercial balance and prestige.

Ambassador Ortona interjected that the round-the-world route was held by a number of other European countries, including West Germany and Scandinavia, and therefore it was not quite as important as we indicated. Mr. Solomon said that this was not correct. There are only four countries which had round-the-world service via continental United States. One was France with a route to her colonies and beyond to Australia. The UK had a route to cover her Pacific possessions, while Japan and Australia were obviously Pacific powers. Mr. Solomon suggested that the Ambassador and his staff acquaint themselves with the facts of the situation because it was on the basis of facts that we were obliged to negotiate. Mr. Solomon said that he did not see that there was much chance of working out an agreement if we resumed in the same state of superheated emotions with incorrect facts which had seemed to dominate the just-concluded negotiations. Mr. Solomon stressed that in these negotiations the United States always followed the principle of economic balance. There were only several exceptions to this. One was with smaller countries and the other was with the UK where the balance was clearly in our favor. We had admitted that there was a slight imbalance with Italy and we had two years ago offered Los Angeles to equalize this imbalance. We had asked nothing in return for Los Angeles. We felt that the present round-the-world offer was the most generous offer in this regard.

Ambassador Ortona concluded that he, of course, was not in a position to negotiate on the matter and that there were certainly other points to be considered in addition to the round-the-world offer. He recalled that Italy had not considered its aviation agreement with the United States satisfactory and it was for this reason that Italy had denounced the agreement. He would study this question personally and expressed appreciation for Mr. Solomon's offer to discuss this problem at greater length at some other time.

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2. Countervailing Duties

Ambassador Ortona said that there were also other problems, specifically the countervailing duties which had been imposed on steel transmission towers. He was hopeful that this action would not spread, although he was not concerned about the wire mesh invetigation.

Mr. Solomon stressed that both cases had arisen not from Government action, but rather from complaints by companies. It was possible that other companies would in the future present complaints concerning other products. Mr. Solomon explained our rationale concerning taxes related directly to products and those which were related to overhead. He said it was perhaps curious that the United States did not have export subsidies, particularly since we had a balance of payments deficit. However, our tax structure was such that there were very few taxes we could rebate in the nature of export incentives. It was incongruous for European countries which had balance of payments surpluses to breach the principle of the division between directly related and indirectly related taxes and to rebate on both types of taxes. With regard to the transmission towers, we had tried to be flexible, but in the end we had no alternative since the Italian exporters would not voluntarily renounce the rebate. We felt the amount involved was not very much and they could have afforded to renounce the rebate.

Ambassador Ortona said that he intended to examine the status of the wire mesh investigation. It was explained to him that so far the Italian authorities had not provided the information necessary to make a determination. It was also explained that, if the information were not forthcoming, the Treasury would have to go ahead on the basis of estimates. Ambassador Ortona concluded that the countervailing duties on the transmission towers had represented a great blow to Italian industry which felt it would lose its export market in the United States.

3. Augusta-Bell Helicopters

Ambassador Ortona briefly mentioned this question and said that Augusta produced Bell helicopters under license. The United States, however, was trying to sell helicopters directly to certain countries in connection with its military assistance programs. By so doing, it completely negated the licensing arrangement. In this connection, he noted that Congress was now considering an amendment to the Foreign Aid Bill which requested the Executive Branch to take into consideration licensing arrangements in connection with military assistance programs. Augusta-Bell and the Italian Government would like to have contracts go to Italy. The Ambassador indicated that the Commercial Minister would call on Mr. Stabler today to discuss this matter in greater detail.

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4. International Liquidity

Mr. Solomon inquired regarding the EEC position on liquidity. Ambassador Ortona replied that the French would oppose an international solution of the liquidity problem if it were not accompanied by a change in quotas and votes in the IMF.

Mr. Solomon said there was no objection to larger IMF quotas, but the difficulty came in connection with the change in voting procedures. In the recent joint meeting of the Deputies of the Ten and the Fund Directors, there was very strong opposition to the French proposal on weighted voting. He found it difficult to see why the French stuck to this position when opinion was so unanimously against it.

5. OECD Oil Committee

Mr. Solomon referred to French objections to efforts by the OECD Oil Committee to plan in connection with possible oil shortages as a result of the Middle East developments. The French had maintained that such planning would be objectionable to the Arabs. This attitude caused great inconvenience to Italy which had low stocks. Mr. Solomon said that the Suez Canal might be blocked for some time and that it was by no means certain that all the Middle East pipelines would resume operation. Moreover, there was a definite tanker shortage even though this situation was better than in 1956. Meanwhile, the oil stocks in Europe were being drawn down. Stocks in the UK, Germany, and France were estimated to be about 80 days. The French could keep up their supply through tankers taking oil from Algeria. However, the Italian situation was a more difficult one and Italian stocks were estimated to be at about a 30-day level.

Ambassador Ortona said he was not familiar with this particular question, having received no reports from Rome.

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